

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Graafschap Fire Department	County Allegan
Fiscal Year End March 31, 2007	Opinion Date August 20, 2007	Date Audit Report Submitted to State August 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

☒ ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Kiekoover, Scholma & Shumaker, PC		Telephone Number 616-772-4615	
Street Address 205 East Main Street		City Zeeland	State MI
Zip 49464			
Authorizing CPA Signature 	Printed Name Joe Kuiper	License Number A 256574	

**GRAAFSCHAP FIRE DEPARTMENT**  
**ALLEGAN COUNTY, MICHIGAN**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED MARCH 31, 2007**

**KIEKOVER, SCHOLMA & SHUMAKER, PC**  
**Certified Public Accountants**  
**Zeeland, Michigan**

**Graafschap Fire Department  
Allegan County, Michigan  
ANNUAL FINANCIAL REPORT  
Year Ended March 31, 2007**

**TABLE OF CONTENTS**

	Page
<b>Independent Auditor's Report.....</b>	<b>I</b>
<b>Management's Discussion and Analysis .....</b>	<b>II</b>
<b>Basic Financial Statements</b>	
Governmental Funds Balance Sheet/Statement of Net Assets .....	1
Statement of Governmental Funds Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities .....	2
Notes to Financial Statements .....	3
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund.....	9



## **INDEPENDENT AUDITOR'S REPORT**

August 20, 2007

Fire Department Board  
Graafschap Fire Department  
Allegan County, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund of Graafschap Fire Department as of and for the year ended March 31, 2007, which collectively comprise the department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Graafschap Fire Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Graafschap Fire Department, as of March 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages II through V and page 9, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Kiekover, Scholma & Shumaker, PC*

Graafschap Fire Department  
Allegan County, Michigan

**Management's Discussion and Analysis**

As management of Graafschap Fire Department ("Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended March 31, 2007. We encourage readers to consider the information presented here in conjunction with the Department's financial statements that follow this section.

The Department was formed for the purpose of providing fire protection services to Laketown Township and Fillmore Township. The Department's governing board consists of two members appointed by Laketown Township and two members appointed by Fillmore Township. The agreement between the townships provides that the costs of operations of the Department be allocated to the townships based on runs in each township and tax base.

**Financial Highlights**

- The assets of the Department exceeded its liabilities at the close of the most recent fiscal year by \$689,061 (*net assets*), of which \$657,482 is invested in capital assets, net of related debt, and \$31,579 is restricted for fire protection.
- The Department's total net assets increased by \$36,621. This is reflected in a net increase in capital assets, net of related debt of \$53,524, and a decrease in net assets restricted for fire protection of \$16,903.
- As of the close of the current fiscal year, the Department's governmental (general) fund reported an ending fund balance of \$40,714, a decrease of \$21,373 in comparison with the prior year. All of this fund balance is reserved for fire protection.
- The Department's total debt increased by \$362,750 (60%) during the current fiscal year. This is the result of the Department making its required scheduled debt service payments of \$41,708 while incurring new debt of \$404,458 during the year (acquisition of new fire truck).

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Graafschap Fire Department's basic financial statements. The Department's basic financial statements are comprised of two components: the financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial statements.** The financial statements are presented in a columnar format. The Department maintains only one fund, a governmental fund (general fund) that is presented in the first column (*governmental funds* financial statements) and is prepared on the modified accrual basis of accounting. These fund financial statements present a short-term view and tell how resources were spent during the year as well as what remains for future spending. Such financial information may be helpful in evaluating the Department's near-term financing requirements.

The second column in the financial statements presents the adjustments necessary to reconcile the *governmental fund* financial statements to the *governmental activities* financial statements (*Statement of Net Assets* and *Statement of Activities*) presented in the third column.

These *governmental activities* financial statements are designed to provide the readers with a broad view of the Department's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Department's finances and whether the full cost of government services have been funded. The two governmental activities statements are as follows:

- The *statement of net assets* presents information on all of the Department's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.
- The *statement of activities* presents information showing how the Department's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that result in cash flows in different fiscal periods.

The Department adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

The basic *governmental fund* financial statements and *governmental activities* financial statements can be found on pages 1-2 of this report.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the governmental fund and governmental activities financial statements. The notes to the financial statements can be found on pages 3-8 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* presenting budgetary comparisons for the Department's General Fund found on page 9 of this report.

### **Financial Analysis of the Department as a Whole**

The following table shows, in a condensed format, the net assets of Graafschap Fire Department as of March 31, 2007 and 2006.

**TABLE 1 - Graafschap Fire Department's Net Assets**

	2007	2006
Cash	\$ 71,979	\$ 87,991
Capital assets	1,625,152	1,208,878
Total Assets	1,697,131	1,296,869
Long-term debt outstanding	967,670	604,920
Other liabilities	40,400	39,509
Total Liabilities	1,008,070	644,429
Net Assets		
Invested in capital assets, net of related debt	657,482	603,958
Restricted	31,579	48,482
Total Net Assets	\$ 689,061	\$ 652,440

The following analysis highlights the changes in net assets for the years ended March 31, 2007 and 2006:

**TABLE 2 - Changes in Graafschap Fire Department's Net Assets**

	2007	2006
Revenues		
Local unit contributions	\$ 382,000	\$ 330,820
Other	<u>2,668</u>	<u>14,124</u>
Total Revenues	<u>384,668</u>	<u>344,944</u>
Expenses		
Public safety	318,968	305,721
Interest on long term debt	<u>29,079</u>	<u>32,014</u>
Total Expenses	<u>348,047</u>	<u>337,735</u>
Change in Net Assets	<u>\$ 36,621</u>	<u>\$ 7,209</u>

**Financial Analysis of the Department's General Fund**

Total revenue sources for fiscal year 2007 increased by \$45,558 (13.2%) to \$390,502, compared to the prior year, and consisted of contributions from Laketown Township and Fillmore Township of \$382,000, and miscellaneous other revenues of \$8,502. Expenditures for fiscal year 2007 increased by \$497,972 (156%) to \$816,333, compared to the prior year, and consisted of \$256,028 of current expenditures, \$485,048 of capital outlay, \$41,708 in principal payments, and \$33,549 of interest and fiscal charges. Other financing sources for the fiscal year totaled \$404,458, consisting of a note payable issued.

The March 31, 2007 fund balance of the General Fund is \$40,714, which is reserved for fire protection. This is a decrease of \$21,373 from the prior year.

**General Fund Budgetary Highlights**

Over the course of the year, the Department Board amended the budget to take into account events during the year. The budgeted amount for other financing sources increased due to a decision to issue a note payable to purchase a new fire truck. The budgeted amount for current expenditures was changed due to an increase in maintenance costs and an increase in capital outlay (due to the decision to purchase a new fire truck), and miscellaneous changes to other budgeted amounts.

**Capital Assets and Debt Administration**

**Capital assets.** The Department's investment in capital assets as of March 31, 2007, amounted to \$1,625,152 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and machinery and equipment. The total change in the Department's investment in capital assets for the current fiscal year was an increase of 416,274 (34.4%). This increase was due to capital asset acquisitions of \$485,048 (\$445,027 for purchase of a new fire truck, \$40,021 for purchases of miscellaneous equipment), disposals of capital assets of \$5,834, and depreciation expense of \$62,940.

Additional information on the Department's capital assets can be found in note 3B on page 6 of this report.

**Graafschap Fire Department's Capital Assets**  
(net of depreciation)

Land	\$ 13,136
Buildings and improvements	905,520
Machinery, equipment, vehicles	<u>706,496</u>
 Total	 <u>\$ 1,625,152</u>

**Long-term Debt.** At March 31, 2007, the Department had \$967,670 of long-term debt outstanding after issuance of new debt of \$404,458 and repayments of \$41,708 during the year. These long-term debt obligations are scheduled to mature serially through fiscal year 2018. Additional information on the Department's long-term debt can be found in Note 3C on page 7 of this report.

**Next Year's Budget**

The Department's budget for fiscal year ended March 31, 2007 calls for an increase in local unit contribution revenues of approximately \$19,000, a decrease in capital outlay expenditures of \$470,048, and an increase in debt service expenditures of approximately \$45,000. All other revenues and expenditures are expected to remain relatively static. There is no amount budgeted for other financing sources.

**Contacting the Department's Management**

This financial report is intended to provide the citizens, taxpayers, customers and investors of Laketown Township and Fillmore Township with a general overview of the Department's finances and to show the Department's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact either Township.



# Basic Financial Statements

**Graafschap Fire Department**  
**Allegan County, Michigan**  
**GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS**  
**March 31, 2007**

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash	\$ 71,979	\$ -	\$ 71,979
Capital assets	<u>-</u>	<u>1,625,152</u> (1)	<u>1,625,152</u>
<b>Total assets</b>	<u><b>\$ 71,979</b></u>	<u><b>1,625,152</b></u>	<u><b>1,697,131</b></u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,762	-	1,762
Accrued payroll	29,503	-	29,503
Accrued interest	-	9,135 (3)	9,135
Noncurrent liabilities:			
Due within one year	-	103,104 (2)	103,104
Due in more than one year	-	900,093 (2)	900,093
Deferred issuance costs	<u>-</u>	<u>(35,527)</u> (4)	<u>(35,527)</u>
<b>Total Liabilities</b>	<u><b>31,265</b></u>	<u><b>976,805</b></u>	<u><b>1,008,070</b></u>
<b>FUND BALANCES/NET ASSETS</b>			
Fund balance-reserved for public safety	<u>40,714</u>	<u>(40,714)</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u><b>\$ 71,979</b></u>		
<b>Net assets:</b>			
Invested in capital assets, net of related debt		657,482	657,482
Restricted for fire protection		<u>31,579</u>	<u>31,579</u>
<b>Total net assets</b>		<u><b>689,061</b></u>	<u><b>\$ 689,061</b></u>

- (1) Capital assets used in governmental activites are not financial resources and are not reported in the governmental (general ) fund.
- (2) Non-current liabilities applicable to the Department's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.
- (3) Interest accrued on long-term liabilities is not reported in the governmental (general) fund.
- (4) Unamortized deferred debt issuance costs are not reported in the fund.

**Graafschap Fire Department**  
**Allegan County, Michigan**  
**STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES**  
**Year Ended March 31, 2007**

	General Fund	Adjustments	Statement of Activities
<b>Revenues:</b>			
Local unit contributions	\$ 382,000	\$ -	\$ 382,000
Other	8,502	(5,834) <sup>(4)</sup>	2,668
<b>Total Revenues</b>	<u>390,502</u>	<u>(5,834)</u>	<u>384,668</u>
<b>Expenditures:</b>			
Current:			
Salaries and wages	128,787	-	128,787
Payroll taxes	3,316	-	3,316
Retirement	12,305	-	12,305
Supplies	10,504	-	10,504
Maintenance	28,890	-	28,890
Contracted services	23,835	-	23,835
Training, membership and dues	2,613	-	2,613
Utilities	14,914	-	14,914
Insurance	7,002	-	7,002
Depreciation	18,526	62,940 <sup>(1)</sup>	81,466
Capital outlay	485,048	(485,048) <sup>(5)</sup>	-
Debt service:			
Principal retirement	41,708	(41,708) <sup>(2)</sup>	-
Interest and fiscal charges	33,549	(4,470) <sup>(3)</sup>	29,079
<b>Total Expenditures</b>	<u>816,333</u>	<u>(468,286)</u>	<u>348,047</u>
<b>Excess of Revenues Over Expenditures/Change in Net Assets</b>	(425,831)	462,452	36,621
<b>Other Financing Sources:</b>			
Notes payable issued	404,458	(404,458) <sup>(6)</sup>	-
<b>Net Change in Fund Balance/Net Assets</b>	(21,373)	57,994	36,621
<b>Fund Balance/Net Assets - April 1</b>	<u>62,087</u>	<u>590,353</u>	<u>652,440</u>
<b>Fund Balance/Net Assets - March 31</b>	<u>\$ 40,714</u>	<u>\$ 648,347</u>	<u>\$ 689,061</u>

- (1) Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This amount represents current year depreciation expense on capitalized assets.
- (2) Repayment of note payable principal is reported as an expenditure in the governmental (general) fund and, thus, has the effect of reducing fund balance because current financial resources have been used. For the Department as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.
- (3) In the statement of activities, interest is accrued on outstanding notes payable, whereas in the governmental (general) fund, an interest expenditure is reported when due.
- (4) Governmental funds report the proceeds from the disposal of capital assets. In the statement of activities only the gain or loss is reported for each disposal. Therefore the change in net assets differs from the change in fund balance by the net book value of assets disposed.
- (5) Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This amount represents current year acquisitions of capital assets.
- (6) Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.

**Graafschap Fire Department  
Allegan County, Michigan  
NOTES TO FINANCIAL STATEMENTS  
Year Ended March 31, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Graafschap Fire Department conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Graafschap Fire Department:

**A. Reporting Entity**

Graafschap Fire Department ("Department") is owned by Laketown Township and Fillmore Township and was established to provide fire protection services for the benefit of the residents of both Laketown and Fillmore Townships. The department's governing board consists of two members appointed by Laketown Township and two members appointed by Fillmore Township. The agreement between the townships provides that the costs of operations of the department be allocated to the townships based on runs in each township and tax base. For the year ended March 31, 2007, costs were allocated 79.4% to Laketown Township and 20.6% to Fillmore Township. The financial statements of the department are presented as a separate reporting entity and are not included with the financial statements of either Laketown Township or Fillmore Township. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the department's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

**Blended Component Unit.** The department has no blended component units.

**Discretely Presented Component Unit.** The department has no discretely presented component units.

**B. Government-Wide and Fund Financial Statements**

Separate columns are included in the financial statements for the government-wide financial statements (i.e., the statement of net assets and the statement of activities) and the fund financial statements, which present the sole governmental (general) fund of the department.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The department reports the following major governmental fund:

***General Fund***

The General Fund is the department's only fund. It accounts for all financial resources of the department.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

**D. Assets, Liabilities, and Net Assets or Equity**

**1. *Bank Deposits and Investments.***

The department's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**2. *Long-Term Obligations.***

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**3. *Capital Assets.***

Capital assets, which include property, plant, and equipment, are reported in the Statement of Net Assets. Capital assets are defined by the department as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Land improvements	15
Machinery and equipment	5-15
Office furniture and equipment	5-20
Vehicles	3-25

**4. *Fund Equity.***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information.**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year-end.

Before March 31, the proposed budget is presented to the Townships' Boards for review. The Boards hold public hearings and a final budget must be adopted no later than March 31.

The appropriated budget is prepared by fund, function, and line item. The legal level of budgetary control adopted by the governing body is the line item level. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Comparisons of actual results of operations as compared to budget for the General Fund are included in the required supplemental information.

## **NOTE 3. DETAILED NOTES ON ALL FUNDS**

### **A. Deposits and Investments**

*Michigan Compiled Laws, Section 129.91*, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The governing body has designated several banks for the deposit of department funds. The investment policy adopted by the department in accordance with Public Act 196 of 1997 has authorized investment in all of the State statutory authority as listed above.

The department's deposits and investment policy are in accordance with statutory authority.

The department pools cash resources of its general fund with Laketown Township in order to facilitate the management of cash and investments. Resources applicable to a particular fund are readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements and are carried at market value.

Earnings in the pooled cash accounts are allocated to each fund based upon their respective balance of cash and investments.

At year-end, the department's carrying amount of pooled deposits was \$87,991, and all pooled deposits consisted of bank deposits (checking and savings accounts, certificates of deposit).

At year-end, the department's carrying amount of pooled deposits was all reported in the basic financial statements as cash in the department's only fund, the General (governmental) Fund.

## ***Deposits***

***Custodial Credit Risk - Deposits.*** Custodial credit risk is the risk that in the event of a bank failure, the department's deposits may not be returned. The department does not have a deposit policy for custodial credit risk. At year end the bank balance of the department's deposits was \$71,979, of which \$0 was covered by federal depository insurance and \$71,979 was exposed to custodial credit risk because it was uninsured and uncollateralized. The department evaluates each financial institution with which it deposits department funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

## ***Investments***

***Interest rate risk.*** Except as limited by state law as listed in the above list of authorized investments, the department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

***Credit risk.*** The department has no investment policy that limits its investment choices beyond those required by state law. At year-end, the department had no investments.

## **B. Capital Assets**

Capital asset activity of the department for the current year was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Completed Construction</b>	<b>Ending Balance</b>
<b>Capital Assets Not Being Depreciated</b>					
Land	\$ 13,136	\$ -	\$ -	\$ -	\$ 13,136
<b>Capital Assets Being Depreciated</b>					
Building and improvements	1,100,454	-	-	-	1,100,454
Machinery and equipment	252,200	40,020	-	-	292,220
Vehicles	370,599	445,028	(25,000)	-	790,627
<b>Subtotal</b>	<b>1,723,253</b>	<b>485,048</b>	<b>(25,000)</b>	<b>-</b>	<b>2,183,301</b>
<b>Less Accumulated Depreciation for</b>					
Buildings and improvements	(166,692)	(28,242)	-	-	(194,934)
Machinery and equipment	(168,559)	(19,224)	-	-	(187,783)
Vehicles	(192,260)	(15,474)	19,166	-	(188,568)
<b>Subtotal</b>	<b>(527,511)</b>	<b>(62,940)</b>	<b>19,166</b>	<b>-</b>	<b>(571,285)</b>
<b>Net Capital Assets Being Depreciated</b>	<b>1,195,742</b>	<b>422,108</b>	<b>(5,834)</b>	<b>-</b>	<b>1,612,016</b>
<b>Governmental Activities Total</b>					
Capital Assets - Net of Depreciation	\$ 1,208,878	\$ 422,108	\$ (5,834)	\$ -	\$ 1,625,152

Depreciation expense of the department's governmental activities for the year amounted to \$62,940.

### C. Long-Term Debt

During the year ended March 31, 2000, Laketown Township built a fire station for the department. To finance this project, Laketown Township's Building Authority sold \$950,000 in bonds. An agreement between Fillmore Township and Laketown Township was made, that the department would pay \$750,000 of the \$950,000, plus interest, over the next twenty years to purchase the building from Laketown Township. During the year ended March 31, 2007, Laketown Township issued refunding bonds to refund \$660,000 of the 1999 bonds mentioned previously. This refunding increased the principal amount of total bonds outstanding, relating to the fire station debt, by \$45,000 (reduced the total aggregate debt service payments by \$54,624). Accordingly, the agreement between Laketown Township and the Graafschap Fire Department was amended so that Graafschap Fire Department will pay \$588,158 of the remaining \$745,000 of outstanding principal (75/95), plus interest, through 2017 to complete the purchase of the building from Laketown Township. The remaining amount needed to pay the bonds will be paid by Laketown Township.

Note payable activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable, Fire Station	3.75%-4.1%	2017	\$ 584,210	\$ 3,948	\$ 588,158	\$ 47,368
Note payable, The Huntington National Bank (Fire Truck)	4.70%	2015	-	404,458	404,458	45,155
Note payable, Bank of Holland (Aerial Truck)	4.25%	2008	<u>20,710</u>	<u>(10,129)</u>	<u>10,581</u>	<u>10,581</u>
Total			<u>\$ 604,920</u>	<u>\$ 398,277</u>	<u>\$ 1,003,197</u>	<u>\$ 103,104</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End March 31</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 103,104	\$ 26,634
2009	82,667	37,452
2010	88,460	33,874
2011	94,340	30,028
2012	96,364	26,011
2013	98,483	21,890
2014	104,648	17,580
2015	106,971	13,060
2016	101,844	8,339
2017	59,211	3,951
2018	<u>67,105</u>	<u>1,376</u>
Total	<u>\$ 1,003,197</u>	<u>\$ 220,195</u>

### D. Restricted Assets

The department had no restricted assets at March 31, 2007.



#### **NOTE 4. OTHER INFORMATION**

##### **A. Risk Management**

The department is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions and natural disasters for which the department carries full multi-peril insurance coverage underwritten by the Michigan Municipal League. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

##### **B. Deferred Compensation Plan**

The department offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all department employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Trusts have been created for the plan assets, thereby insulating the assets from the unit of government's general creditors. The department has no fiduciary or administrative responsibility for the plan, therefore the plan assets are not reflected as an agency fund in the accompanying financial statements. The department also contributes a percentage of each employee's salary to the plan. For the year ended March 31, 2007, the department's contribution amounted to \$12,305.

**Required  
Supplementary Information**

**Graafschap Fire Department**  
**Allegan County, Michigan**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**Year Ended March 31, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Local unit contributions	\$ 382,000	\$ 382,000	\$ 382,000	\$ -
Other	4,100	6,100	8,502	2,402
<b>Total Revenues</b>	<u>386,100</u>	<u>388,100</u>	<u>390,502</u>	<u>2,402</u>
<b>Expenditures:</b>				
Current:				
Salaries and wages	135,000	135,000	128,787	6,213
Payroll taxes	3,800	3,800	3,316	484
Retirement	15,200	15,200	12,305	2,895
Supplies	12,000	10,000	10,504	(504)
Maintenance	16,000	31,000	28,890	2,110
Contracted services	25,066	24,066	23,835	231
Training, membership & dues	3,000	3,000	2,613	387
Professional services	500	3,510	5,336	(1,826)
Utilities	17,000	17,000	14,914	2,086
Transportation	6,400	7,400	7,002	398
Insurance	20,000	20,660	18,526	2,134
Capital outlay	50,000	490,000	485,048	4,952
Debt Service:				
Principal retirement	82,421	41,708	41,708	-
Interest and fiscal charges	35,000	33,549	33,549	-
<b>Total Expenditures</b>	<u>421,387</u>	<u>835,893</u>	<u>816,333</u>	<u>19,560</u>
<b>Excess of Revenues Over Expenditures</b>	(35,287)	(447,793)	(425,831)	21,962
<b>Other Financing Sources:</b>				
Note payable issued	-	404,458	404,458	-
<b>Net Change in Fund Balances</b>	(35,287)	(43,335)	(21,373)	21,962
<b>Fund Balances - April 1</b>	<u>62,087</u>	<u>62,087</u>	<u>62,087</u>	<u>-</u>
<b>Fund Balances - March 31</b>	<u>\$ 26,800</u>	<u>\$ 18,752</u>	<u>\$ 40,714</u>	<u>\$ 21,962</u>



August 20, 2007

Fire Department Board  
Graafschap Fire Department  
Allegan County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and major fund of Graafschap Fire Department as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Graafschap Fire Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiencies to be material weaknesses.

- 1. Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles (GAAP)** – Graafschap Fire Department lacks adequate controls to prepare year-end full disclosure financial statements, including the related footnotes and government-wide (GASB 34) statements. The Township has limited expertise in the preparation of year-end financial statements and relies on the auditors to draft the annual financial statements including related disclosures. Because of this lack of internal expertise and because the auditor cannot be part of the Township's control environment, there exists a likelihood that a misstatement that is more than inconsequential to the financial statements will not be prevented or detected by the Township's internal control.

This communication is intended solely for the information and use of management, the Board of Trustees, and others in the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Kiekover, Scholma & Shumaker, PC*  
Certified Public Accountants